guising your policy preference by pushing sanctions would be a clever move.

61. This is the conclusion of Robert Maguire et al., *Haiti Held Hostage: International Responses to the Quest for Nationhood, 1986–1996* (Providence, RI: Watson Institute for International Studies, Brown University, 1996): "A serious and timely embargo, firmly imposed, tightly enforced, and backed up by credible military force, as it finally was, would have been the most humanitarian approach. Although ordinary Haitians might still have suffered, the end result would in all probability have entailed less suffering" (p. 56).

62. Others have drawn a similar lesson: "The blunt weapon of sanctions might have been avoided by the earlier and surgical use of military force, more familiar in the lexicon of the military regime. In such a scenario . . . the international community would have retained credit for its major achievement—replacing the de facto regime with the constitutional authorities—while foreshortening suffering and reducing the reconstruction challenge. As many Haitians believe, swift and effective military action might have been the most humanitarian approach." Maguire et al., *Haiti Held Hostage*, p. 99.

63. For discussion of postintervention developments in Haiti, see "Policy Toward Haiti," Hearing of the House International Relations Committee, December 9, 1997. See also Donald E. Schulz, *Haiti Update* (Carlisle Barracks, PA: U.S. Army War College, 1997) and Sidney W. Mintz, "Can Haiti Change?" *Foreign Affairs* 74, no. 1 (January/February 1995), pp. 73–86.

64. Johanna McGeary, "Did the American Mission Matter?" *Time*, February 19, 1996, p. 36

4

Iran

Patrick Clawson

THE UNITED STATES has had economic sanctions of one sort or another in place against Iran since the Islamic Revolution of 1979. Nearly all those sanctions have been unilateral U.S. actions without multilateral support, which if nothing else makes Iran an interesting case study of the use of sanctions when the United States disagrees with its allies about how to proceed.

In reaction to the November 1979 seizure of the U.S. embassy in Tehran, President Jimmy Carter made it illegal for Americans to purchase goods directly from Iran and froze $12 billion in Iranian assets in the United States. In orders issued on April 7 and 17, 1980, he extended sanctions to include a ban on all commerce and travel between Iran and the United States, except for food, medicines, and newspeople.[1] Part of the January 20, 1981, Algiers Accord for release of the American embassy hostages was Washington's agreement to restore full normal economic relations with Iran. There were no special U.S. barriers to bilateral economic ties from then until January 1984, when Secretary of State George Shultz designated Iran as a supporter of international terrorism, which triggered a variety of restrictions.[2] Since 1984 the restrictions on economic ties with Iran have increased steadily.

On October 6, 1987, Congress, in response to U.S. Department of Energy purchases of Iranian oil for the U.S. Strategic Petroleum Reserve, passed resolutions unanimously in the Senate and 407–5 in the House calling for the banning of Iranian imports. On October 29 President Ronald Reagan, not wanting to be seen as less tough on terrorism than the Democrats who had just taken control of both chambers of Congress, signed an executive order prohibiting nearly all imports from Iran.

Iran had not been a matter of particular concern in the years from 1987 to 1992. In his inaugural address, President George Bush had extended Iran an offer, noting "Good will begets good will." Despite the November 1991 return to Iran of $285 million frozen since 1979 (for prepayment of arms purchases),[3] nothing came of American offers, repeated by the White House publicly and privately, to meet with Iranian officials quietly.[4]

The Iran-Iraq Arms Nonproliferation Act of 1992 significantly tightened restrictions on U.S. exports to Iran. The definitions of items subject to export controls are so broad that, to quote one respected business journal, they "could encompass everything developed in the computer age."[5] The act also included mandatory sanctions against any foreign government aiding Iran's acquisition of "chemical, biological, nuclear, or destabilizing numbers and types of advanced conventional weapons," including a ban on sale to Iran of items on the U.S. Munitions List, suspension of dual-use technical exchange agreements, and an end to any economic aid.[6] It also provided for measures against firms and individuals aiding the targeted Iranian programs.

From its early days, the Clinton administration took a somewhat harder line against Iran. The May 1993 proclamation of the policy of dual containment of Iraq and Iran put those two regimes on a rhetorically equal plane, no matter how much the administration was at pains to explain that the containment of Iran was of a qualitatively different character than that of Iraq: There were no overflights, no "no-fly zones," no U.N. inspections, no U.N. embargo, and no de facto insistence on a change of regime.[7] The Clinton team emphasized the national security threat posed by Iran, including its weapons of mass destruction programs, its organization of terrorism, its sponsorship of those bent on disrupting the Arab-Israeli peace process, and its subversion of moderate Middle Eastern regimes. European governments generally missed the signals of the change in policy, often dismissing Secretary of State Warren Christopher's comments on the issue as reflecting his personal pique dating from his 1980–81 role as chief negotiator of the Algiers Accord.

The initial policy of the Clinton administration was to confine its economic pressure against Iran to opposing politically motivated loans and aid. In practice, this meant vigorous opposition to the generous 1993–94 loan reschedulings—thinly disguised as new loans in order to avoid breaking the informal rules of the Paris Club of creditor nations, which require that reschedulings be given only to countries with economic reform programs approved by the International Monetary Fund (IMF)—initiated by Germany and copied by other industrial countries.

The Clinton administration was opposed to the soft treatment of Iran, noting that the United States had paid a heavy political price by insisting to Latin American nations that they had to follow IMF prescriptions, while now Germany was letting Iran off the hook.

The early Clinton policy toward Iran in the economic sphere was quite similar to that applied during the Cold War toward the Soviet Union; namely, it attempted to reduce foreign exchange available for the military, including encouraging import of consumer goods as a way to undermine the system and to drain off foreign exchange.[8] The distinction between encouraging selected economic relations with Iran while discouraging politically motivated ones did not work diplomatically. European leaders complained about what they saw as hypocrisy when the United States urged limiting some economic transactions with Iran while it continued with others. American commentators agreed; one called this U.S. policy "feel good containment—a policy that makes us feel good but doesn't make Iran feel bad enough to change its behavior."[9]

After their victory in the election of 1994, Republicans in Congress were eager to show that they were taking a firmer stance than the Democrats against sponsors of terrorism. Faced with congressional Republican pressure and adverse publicity about perceived U.S. hypocrisy, President Clinton decided to act. In March 1995 he banned any U.S. firm from investing in the development of Iranian petroleum resources, an action specifically aimed at a multimillion dollar deal already concluded by Conoco to develop the Sirri field in Iranian waters a few miles from its platform in waters of the United Arab Emirates. On May 6, 1995, he further banned U.S. economic transactions with Iran, with the exceptions required by Congress in its most recent renewal of the International Economic Powers Act—transactions for the purposes of travel, academic exchange, journalism, humanitarian purposes, religious reasons, and family matters.

In the summer of 1995, Senator Alfonse D'Amato (R–N.Y.), who had long been an advocate of economic sanctions on Iran, reworked his sanctions bill, with expert advice from the American Israel Public Affairs Committee (AIPAC), often referred to as the voice of the Israel lobby. AIPAC was concerned about the issue because of the Iranian government's vigorous role in working to undermine the Arab-Israeli peace process as well as the danger that Israeli leaders felt their country faced from the prospect that Iran might develop nuclear weapons. The influence of the Israel lobby on Iran sanctions often has been exaggerated.[10] In fact, the key factor in the success of the D'Amato bill was the 1994 Republican victory. Indeed, it could be argued that the most influential lobby on the matter was that of the families of the victims of Pan

Am Flight 103, who succeeded in adding Libya to an originally anti-Iran bill and then made the provisions on Libya tougher than on Iran, thanks to the insistence of Senator Edward Kennedy (D–Mass.).

While no member of Congress opposed the D'Amato bill, many members were uncomfortable with it and, indeed, with the unilateral U.S. embargo declared by President Clinton, because they placed high priority on open trade and because they were skeptical about the likely impact of the bill. These congressional opponents of the sanctions, while unsuccessful in killing the bill, succeeded in watering down many of the original provisions, notably by introducing a great deal of flexibility in what measures needed to be taken against those choosing to do business with Iran. Driven in good part by the same domestic political considerations that affected Congress, President Clinton agreed to support the D'Amato bill in May 1996 if it were revised to cover only investment, thereby reducing the potential for conflict with U.S. obligations under international trade agreements. On August 5 President Clinton signed the Iran and Libya Sanctions Act of 1996 (ILSA), the formal name of the D'Amato Act, which passed by unanimous vote in both chambers of Congress.

ILSA targets only investment, and then only substantial investments (above $20 million) in oil and gas development.[11] Such investment is described as against the national security interest of the United States. To quote the act: "The Congress declares that it is the policy of the United States to deny Iran the ability to support acts of international terrorism and to fund the development and acquisition of weapons of mass destruction and the means to deliver them by limiting the development of Iran's ability to explore for, extract, refine, or transport by pipeline petroleum resources of Iran."[12] Measures are authorized only against specific firms, not against all firms from a country. Great flexibility is authorized in how to target a firm. Not only does the president have the authority to waive any retaliation against a firm, but if he decides to take action, the list of measures he must impose is designed to allow him the option of applying purely theoretical punishments, such as a ban on being a primary dealer in U.S. government bonds, or take serious measures, such as denying access to the U.S. market.

In 1997 there were suggestions that U.S.-Iran relations might improve. One reason was that the firm U.S. stance against Iran's unacceptable behavior was closely associated with Secretary of State Warren Christopher; his replacement by Madeleine Albright led to expectations of a change in policy. A second reason that led some to expect an improvement in U.S.-Iran relations was the widespread criticism by former senior U.S. government officials of policy toward Iran.[13] The third and principal factor stimulating talk of a change in U.S.-Iran relations, however, was the May 22, 1997, election of Mohammed Khatemi as president of Iran. Khatemi campaigned for moderation in domestic policies, especially liberalizing cultural and lifestyle restrictions and reinforcing the rule of law by curtailing revolutionary excesses. Many believed that these trends would carry over into Iran's foreign policy.

In July 1997 the U.S. government announced it would not sanction Turkish firms for their role in building a gas pipeline that hooks up to a pipeline under construction in Iran.[14] This was widely interpreted as a signal to Tehran.[15] Yet it would have taken an aggressive interpretation of ILSA to say that the United States could sanction the firms involved in the pipelines. ILSA is aimed only at investment in Iran, not at trade with it—a feature essential to making the act consistent with treaties governing world trade. Therefore, the only issue is whether foreign firms were investing in the development of the Iranian oil and gas industry. In fact, the portion of the connector pipelines inside Iran are being paid for entirely by that country, without any foreign financing. The only way to claim the project fell under ILSA restrictions would be to maintain that investment outside Iran that helped the country also was subject to ILSA, and that would be a stretch. Moreover, and as a counterindication of a changing U.S. policy toward Iran, on August 19, 1997, President Clinton issued a new executive order explicitly banning U.S. exports to third countries when the goods are destined for reexport to Iran.[16] The order uses sweeping language to ban just about anything a U.S. national could do to trade with Iran indirectly.

Multilateral versus Unilateral Support

The United States has received only limited multilateral support for its policy of constraining trade and investment with Iran. The failure to secure broader support for these sanctions often has been interpreted in Washington as a product of European interest in selling to Iran irrespective of that government's misdeeds. In Europe, the usual explanations for the differences across the Atlantic on Iran policy are, first, that Washington's exaggerated hostility is based on domestic politics rather than strategic interests, and, second, that engaging Iran and encouraging moderates there will be the more effective route to changing unacceptable Iranian behavior.

The United States has not tried to secure U.N. approval for any sanctions against Iran. Any such effort would undoubtedly fail, because China and Russia disagree with the U.S. evaluation of Iran's behavior.[17] All the same, the United States has made limited progress in persuading each to limit trade with Iran, primarily by offering quid pro quos on other issues that are more important to Beijing and Moscow. In particular, China has agreed not to sell nuclear reactors to Iran in return for ready access to U.S. nuclear power reactor technology. Russia has agreed not to make *new* arms sales to Iran, but mostly because so much remains undelivered from the $6 billion 1989 agreement that no new sales would be needed for years. Indeed, substantial deliveries of conventional arms are proceeding, and Russia has not agreed to cancel the sale of a nuclear power plant to Iran despite strong U.S. pressure.

As for Western Europe and Japan, they have joined with the United States in implementing strict export controls on sales to Iran of arms and of militarily useful technologies, including a complete ban on nuclear-related technologies.[18] Allied cooperation on these export controls has been, in general, better than the cooperation on exports of sensitive technology to the Soviet Union during the Cold War. The problem is no longer securing cooperation from governments inclined to look the other way; indeed, West European governments and Japan are, on the whole, quite aware of the dangers of shipping arms and dual-use goods to Iran. As Bernd Schmidbauer, the German Chancellery minister in charge of intelligence coordination, put it, "There was no way the Germans were ever willing to provide German [arms] technology to help the Iranians. This has been our position and it is adhered to strictly."[19]

Enforcing restrictions is no easy matter. Germany is making a substantial effort to prevent such smuggling. For instance, in late 1994 the German Economics Ministry sent a notice to German firms warning, "You may encounter innocent-looking addresses in Iran, such as scientific institutes or industrial federations acting as purchases so that the arms connection is not apparent."[20] In February 1995 Chancellor Helmut Kohl said, "I have talked to German industry and we have agreed that we will do everything possible to make diversion [of goods into military programs by Iran] impossible."[21]

Nevertheless, Western Europe and Japan have taken strong exception to ILSA, which they criticize as impinging on the sovereignty of other states.[22] Some of the criticism reflects misreporting about ILSA and its effects. ILSA makes no claim to impose U.S. authority on U.S.-owned firms incorporated abroad or to apply U.S. law to firms operating outside the United States, which is what usually is meant by extraterritoriality. Nor does it refer to trade. Indeed, many supporters of the law would be delighted if European firms sold Iran as many consumer goods as they could, for that would reduce the foreign exchange Iran could spend on arms and on support for terrorists.

But the heart of the European and Japanese objections to ILSA relate to its politicization of trade. ILSA can best be described as a secondary boycott, that is, a boycott of firms that do not comply with the U.S. boycott of Iran (a primary boycott). In that way, the act is rather similar to the Arab League boycott of Israel. The irony is that for years the United States campaigned against secondary boycotts, going so far as to argue that they were contrary to the procedures of the General Agreement on Tariffs and Trade (GATT), while Europe took a more relaxed attitude, viewing such boycotts as unfortunate but understandable. (Indeed, Egypt was allowed to join GATT without making any provision to end over time its secondary boycott of Israel.)[23] With ILSA, the United States and Europe appear to have switched sides in this long-running debate.

Upset by both ILSA and the Helms-Burton Act, which introduces sanctions against individuals and firms doing certain types of business with Cuba, the European Commission filed formal complaints against the United States with the World Trade Organization (WTO). After discussions with the United States, a Memorandum of Understanding about the two acts was agreed to on April 11, 1997. The European Union (EU) interpreted the understanding as suspending the application of ILSA as well as Helms-Burton, a position with which the United States disagreed. The European Commission then warned, "If action is taken against companies or waivers as described in the Understanding are not granted or are withdrawn, the Commission will request the WTO to restart or reestablish the panel" examining its complaint.[24]

It is not clear how the WTO would react to the European Commission complaint. Senator D'Amato modeled his bill on U.S. legislation imposing retaliation on firms that export dangerous technologies, such as those useful for nuclear weapons, which has never been challenged under GATT or WTO procedures. In the past the United States has retaliated under these laws with few complaints from Europe—for example, when the United States limited access to its market by Toshiba in retaliation for exports by one of its affiliates of technology for submarine propellers to the USSR. However, that action was in the context of what both the United States and Europe agreed was a real threat, one against which they had adopted common Coordinating Committee on Export Controls (COCOM) rules. The situation is quite different with regard to Iran. European officials are skeptical that ILSA is a national security issue, as the U.S. government claims, and therefore outside the scope of WTO analysis. If the European Union proceeds with its complaint against ILSA, the WTO could be in the delicate position of having to rule on what is and is not a threat to U.S.

national security. Congress is unlikely to appreciate any suggestion that the WTO is better placed than the U.S. government to determine what constitutes such a threat.

The Clinton administration saw ILSA as means to deter firms from entering into high-profile deals with Iran. From this perspective, the law is most effective if no sanctions are ever applied, because that would mean that no large investments are made in Iranian oil and gas development and that a dispute with Europe is averted.

This strategy succeeded until September 1997. Then the French firm Total announced a $2 billion deal with Iran to develop, in partnership with Gazprom of Russia and Petronas of Malaysia, the South Pars gas field.[25] The project was well designed to challenge ILSA: The Russian participation raised the political stakes, the investment was strongly supported by the French government, and Total was not particularly vulnerable to sanctions, as three days earlier it had finalized the sale of nearly all its assets in the United States and made no secret that its business strategy involved withdrawing from the U.S. market. In addition, the deal was announced close to the October 15 deadline set six months earlier by the European Union for reaching agreement with the United States over ILSA and Helms-Burton, with the threat that failing an agreement, the European Union would proceed with its WTO complaint against Helms-Burton despite the continuing U.S. waiver of most of that law's provisions. Faced with the threat of a serious conflict with the European Union over trade, the Clinton administration let it be.

The Impact on Iran of U.S. Sanctions

U.S. sanctions on Iran have had both an economic and a political impact on that country.

The economic effect of sanctions came soon after Iran had run into serious economic difficulties because of its own policies. Excessive foreign borrowing in the early 1990s had driven debt up from less than $5 billion in 1988, at the end of the war with Iraq, to about $30 billion in 1993. (The data are imprecise because the issue became highly political.) Iran experienced a foreign exchange crisis by 1993, which caused it to seek debt reschedulings and which pushed the economy into recession in 1993–94. Furthermore, the government was refusing to implement the reforms necessary to relaunch economic growth, such as reducing subsidies on energy worth at least $10 billion a year, freeing exports from a welter of restrictions, and reducing controls on private enterprise. Under these circumstances, Iran's growth prospects would have been limited irrespective of U.S. action. But the economic difficulties of 1994 to 1996 often were ascribed to U.S. hostility by both the Iranian government and people.

The May 1995 ban on oil dealings by U.S. firms had an immediate economic impact on Iran, on the order of several hundred million dollars in the first year. That came primarily from problems adjusting to the cutoff in sales to U.S.-owned oil firms. In the first three months (May through July) after sanctions were imposed, Iran was not able to sell about 400,000 barrels a day, and it had to accept a discount of 30 to 80 cents on the oil it could sell, for a combined loss of $100 million to $200 million.[26] The sanctions also appear to have caused Iran some problems doing business in U.S. dollars; that is, non-U.S. firms worry that sanctions may affect their ability to be paid in dollars. Some Iranian firms have been going through middlemen, who charge a fee for their service. The extra cost may be as much as $100 million a year.

An additional immediate impact of the imposition of the trade ban was a collapse in the value of the Iranian currency, which lost a third of its value in the week after the ban was imposed. Tehran responded by introducing rigid controls on foreign exchange trading, which caused the foreign exchange market to dry up. At the artificial level of 3,000 rials to the dollar instead of the market rate (which was 6,000 before the controls and has been 4,000 to 5,000 since), it is unattractive to export, and so non-oil exports in 1995–96 and 1996–97 were $3 billion a year, or one-fourth less than their presanctions level. That only makes the foreign exchange shortage worse and compels Tehran to impose more and more controls in a downward spiral into a distorted and inefficient economy.

More important, Iran's access to foreign capital has been reduced. Foreign lenders, such as commercial bankers and government export credit agencies, are more cautious about lending to Iran because of the sanctions. The country has not been able to secure anything like the $2 billion in annual capital inflows forecast by the IMF presanctions.[27] Meanwhile, Tehran has decided that it cannot be sure of continued access to foreign capital markets, so it has put top priority on repaying its foreign debt as quickly as it can. Iran has gone from being a net borrower of about $5 billion a year during 1989–90 to 1992–93 to being a net repayer of about $2 billion a year in 1995–96 and $4 billion in 1996–97. The $7 billion to $9 billion turnaround from a borrower to a repayer has forced Iran to cut its imports in half, from $24 billion in 1992–93 to $12 billion per year in 1995–96 and 1996–97. Much of this change is due to inappropriate Iranian policy, which wasted so much of the borrowed money that the country would not have been able to make regular debt payments even in the absence of U.S. pressure.

While U.S. sanctions somewhat weakened Tehran's foreign exchange position in the short run, that effect was small relative to the impact of changes in Iran's fortunes caused by the world economy. More specifically, the higher oil prices in 1996 brought Iran about $3 billion more in oil revenues than in 1995. The U.S. government lacked the instruments to affect the Iranian economy relative to what world economic developments could do.

If oil prices recover, Iran is positioned to resume strong economic growth, thanks to the higher oil income in 1996 and to the belt-tightening between 1994 and 1996 that allowed repayment of much foreign debt. As Iran's economy picks up and as foreigners resume lending, the country can be expected to proclaim the failure of U.S. sanctions.

The largest economic impact of the U.S. actions over the longer term is likely to be discouragement of investment in the oil and gas industry. The National Iranian Oil Company (NIOC) makes extensive use of U.S.-built equipment, which it regards as better than any alternatives. NIOC, which does not have enough capital to maintain (much less expand) its output, has placed high priority on attracting foreign firms to invest in its fields. However, in the first two years after the ban on U.S. trade, only one firm oil deal was announced: the replacement of Conoco by the French firm Total shortly after President Clinton banned Conoco from proceeding with the development of the offshore Sirri oil field.

Turning to their political impact, it is clear that the sanctions have not persuaded Iran to change the behavior to which Washington objects. Secretary of State Christopher argued that Iran must be made to choose between its economic aspirations and its unacceptable political behavior. This target was not attained for two reasons. First, Iran harbors hopes that Europe and Japan will step in to replace any losses due to U.S. sanctions. So far those hopes have been realized only partially. The allies have traded with Iran while making few loans and essentially no investment. But the prospect of European and Japanese business ties has reduced Tehran's incentive to change its behavior. Second, the leaders of the Islamic Republic place great store on their radical foreign policy. It is one of the few remnants of revolutionary ideology that has not been abandoned. And the radical foreign policy does much to puff up Iranian nationalist pride, making more plausible Iran's claim to be a major force on the world scene, a player in Arab-Israeli matters and, to its mind, a leader of the world Muslim community.

On the other hand, one of the accomplishments of U.S. sanctions on Iran has been to reduce the income available to acquire weapons. Iran had to curtail its 1989 five-year plan for $10 billion in weapons purchases because of budget problems—problems due in significant part to U.S. pressure against loans to Iran. In the period from 1989 to 1996, Iran announced agreements with various suppliers to purchase many more weapons that it actually acquired; for example, 1,000 to 1,500 tanks agreed to but only 184 acquired; 100 to 200 aircraft agreed to but only 57 acquired; and 200 to 300 artillery pieces agreed to but only 106 acquired.[28] The reason for the shortfall was generally lack of money. Tehran reported to the IMF that its total military expenditures, including operating costs as well as weapons purchases, were only $1.3 billion a year on average between 1991–92 and 1994–95, compared to the planned $2 billion a year just for weapons purchases.[29]

The shortfall in weapons acquisition has had a significant impact on the balance of power in the Gulf. With an extra $1 billion to $2 billion a year, Iran would have been able to add more weapons with which to threaten stability in the Strait of Hormuz. Cash constraints explain why Iran was not able to take delivery of its third submarine until 1997 even though construction was complete in 1994 as well as the delays in acquiring more missile launching boats and modern mines.[30]

In some countries, governments have used sanctions as an excuse for their own economic failings. There is little evidence that the Iranian government has used this argument. Iranian politicians and media frequently criticize the country's economic performance but rarely do either mention sanctions. Instead, they focus their attacks on the policies of their political opponents; for example, President Mohammed Khatemi stressed corruption in his 1997 campaign. Nor have Iranian politicians used sanctions as a means to rally nationalist sentiment to their side. The politicians who wish to present Iran as under assault from the West are much more likely to refer to cultural aggression from Western mass culture, a subject that deeply concerns them.[31] The firm U.S. policy against Iran may have caused some nationalist backlash, but the principal factor was something much more substantial than sanctions, namely, the perception that the United States might attack Iran—not an irrational concern in light of U.S. press speculation about retaliation for terrorism as well as House Speaker Newt Gingrich's call for "replacement of the current regime in Iran" and his support for covert operations to that end.[32]

Costs of the Sanctions

The direct costs to the U.S. economy of the sanctions on Iran were a loss of profits on trade and investment. The largest direct loss was on about $3 billion in oil trade involving Iranian crude destined for third-country markets and the proposed Conoco development of the offshore Sirri oil field. Less important was a reduction in U.S. exports. Such exports had not been large; in 1993 U.S. exports to Iran were $616 million.[33] And it appears that sales continue through reexports from Dubai in the United Arab Emirates, which reexports to Iran $1 billion of goods a year, perhaps half of which come originally from the United States.[34] Indeed, European diplomats complain privately that for many consumer products, U.S. goods continued in 1997 to dominate the Iranian market. Still, the total forgone profits on all types of trade and investment would seem to be on the order of several hundred million dollars a year.

Indirect costs are larger. One consideration is the increasing concentration of world oil production in the Gulf Cooperation Council (GCC) states that would result if the sanctions on Iran, Iraq, and Libya are sustained for the medium term. The U.S. interest is in a diversity of oil sources, so as to reduce the risk of overall market disruption were there to be a problem with access to oil from any one country. A policy that restricts development of oil in three major producers at the same time goes against the overall U.S. interest in diversifying oil sources.

Another side effect has been to complicate the search by Central Asian and Caucasian states for alternative trade routes so as to lessen their dependence on Russia. Iran is well positioned to provide routes for oil and gas pipelines to permit full development of the Caspian Basin oil and gas resources now largely sitting idle because of lack of access to markets. At least until the mid-1997 U.S. decision to tolerate a pipeline crossing Iran, U.S. pressure has impeded the investments necessary for Central Asia to use routes through Iran.

Also to be included as an indirect cost of sanctions is the effect U.S. actions against Iran have had on Russian suspicions about U.S. intentions. U.S. pressure not to sell a nuclear reactor to Iran was seen by some as an attempt to stop Russia from competing in one of the few high-technology industries in which it has a decent competitive position, namely, the nuclear power industry. U.S. actions were largely incompatible with its obligations under the Nonproliferation Treaty (NPT), which declares that the nuclear weapons states will make peaceful nuclear technology readily available to nonnuclear signatories that cooperate with the International Atomic Energy Agency.[35] What is more, Iran has a well-established record of excellent cooperation with that agency.[36]

A rather different issue is the cost to the U.S. oil industry if it comes to be seen as an unreliable partner. While perhaps not dominant as it once was, the United States is obviously a significant player in every aspect of the oil business, from exploration and production technology to investment and trading. The U.S. competitive edge could be dulled

by the perception that dealings with the United States are subject to abrupt cutoffs for political reasons. The specific targeting of the petroleum industry—first in President Clinton's March 1995 executive order and then in ILSA—are a precedent that troubles the industry.

A related problem is the cost that comes from the politicization of trade. U.S. action against Iran, especially the secondary boycott mandated by ILSA, is an important example of making trade subject to political rather than market considerations. For reasons of efficiency, economists prefer to see trade separated from politics. Besides that general consideration, there is a more specific problem for the United States if traders worldwide come to consider it an unreliable and unstable trading partner.

Last and most important are alliance friction costs. European governments have been angered at what they see as American bullying. ILSA, combined with the Helms-Burton Act and noneconomic issues such as the vetoing of a second term for U.N. Secretary-General Boutros Boutros-Ghali, has been seen as evidence that the United States insists on dictating to Europe on those issues where the two disagree. The perception of unfair U.S. pressure has hurt the overall relationship and impeded agreement on specific issues, whether about the re-incorporation of France into the NATO military structure or the response to rogue regimes like Iraq and Iran.

Developments early in 1996–97 appeared to offer some prospect of reducing this cost of the Iran sanctions. In particular, European governments found that their policy of critical dialogue with Iran brought them little, and there is some willingness to consider a tougher policy. One important factor was the Iranian refusal to participate in a compromise over the Salman Rushdie affair, to which the European Union devoted considerable attention. Iran refused to sign a proposed letter committing it not to kill Rushdie on EU soil, even though that letter made no mention of actions elsewhere, nor by actions of Iranian citizens (the Iranian government insists that the bounty on Rushdie's head is from a private group unconnected to the government), nor to the murder of publishers and translators of *The Satanic Verses* (such as the attack on the Italian translator and the Norwegian publisher). The letter was controversial in Europe; after Iran refused to sign, the London *Times* noted, "Now that this squalid surrender document has been torn up, almost nobody will admit to having supported such a formula."[37] After a November 1996 flap over an appearance by Salman Rushdie, the Danish Folketing (parliament) mandated more distant relations with Iran and dialogue with the democratic opposition. Norwegian State Secretary Jan Egeland announced in March 1997 that "the Government of

Norway calls for international economic sanctions against Iran" over the Rushdie affair.[38]

Germany has been Iran's traditional European friend, and in 1993 the German government arranged the precedent-setting debt refinancing that rescued Iran from a foreign exchange crisis, undercutting U.S. efforts to pressure Iran economically. Starting in 1995, the German government came under domestic political pressure to abandon its policy of critical dialogue because of Iran's position on terrorism, specifically, Iran's "welcome" for the November 1995 assassination of Israeli Prime Minister Yitzhak Rabin[39] and the February–March 1996 terrorist bombings in Israel. ("The divine retribution on those who spread corruption and injustice on the earth will be severe.")[40] This was reinforced by the verdict in the Mykonos case, pertaining to the murder in a Berlin restaurant of that name on September 17, 1992, of Sadegh Sharifkandi, the leader of the Kurdish Democratic Party of Iran (KDPI), who was attending a meeting of the Socialist International at the invitation of the German Social Democratic Party. The suspects, quickly arrested, were thought to be operating on behalf of Iran. In March 1996 the German federal prosecutor issued an arrest warrant for Iran's information minister, Ali Fallahian, as a co-conspirator in the case.[41] In August, testimony in that trial of former Iranian President Abdolhassan Bani Sadr led Prosecutor Bruno Jost to say he was considering indictment of Iranian religious guide (the supreme leader of the government, under the constitution) Ayatollah Seyed Ali Khamenei. In November, Jost said in his closing statement that "it is not possible to avoid mentioning the state terrorist background of the murder" and "there cannot be the slightest doubt that the attack was planned and prepared by the Islamic Republic of Iran and its leading men."[42] On April 10, 1997, Presiding Judge Frithjof Kubsch read the verdict of the Berlin court: "Iran's political leadership made the decision . . . to liquidate the KDPI. The final decision on such operations lies with the 'Committee for Secret Operations' which lies outside the constitution and whose members include the state president, . . . the top official responsible for foreign policy [and] the 'religious leader' [who] is a political leader [rather] than the spiritual head of the Muslims."[43]

Following the Mykonos verdict, EU states withdrew their ambassadors from Iran and suspended the critical dialogue until July 1998 at the earliest.[44] Iran protested vigorously. When the EU Council of Foreign Ministers decided on April 29 that the ambassadors would return to Tehran, the Iranian reaction was swift. The next day religious guide Khamenei ordered the Foreign Ministry "not to allow the German Ambassador to return to Iran for a while,"[45] an order that also extended to the Danish ambassador. Foreign Minister Ali Velayati went a step further, saying, "The later they [the ambassadors] come, the better it will be for us. And even if they do not come at any time, we will not be worried." President Ali Akbar Hashemi Rafsanjani announced, "The critical dialogue they [the Europeans] are mentioning today was stopped some time ago."

Many in Europe were profoundly embarrassed by the Union's weak reaction and the Iranian slap in the face. The *Frankfurter Allgemeine* editorialized, "Europe does not seem to be able to react . . . other than by 'just do not show any toughness,'" while the London *Times* editorial was entitled "License to Murder."[46] In Berlin's *Tageszeitung*, Dieter Rulff, in a column headlined "Looking Like a Damned Fool," bemoaned, "European foreign policy has gone to the dogs . . . dogs that are striving toward the feeding bowl by jumping over any stick."[47] As European Commission Vice President Sir Leon Brittain said, "Critical dialogue is dead in the water . . . it is difficult to see the circumstances which could lead to its revival short of a fundamental change of policy and approach on the part of the Iranian regime."[48]

European (or at least French) embarrassment (and anger against Iran) quickly abated, however. As already noted, in September 1997, Total signed a new deal to develop Iran's natural gas fields. The French government applauded the move. What remained unclear was whether other French and European firms would follow suit—and how the American Congress would react.

Alternatives to Sanctions

ILSA states in general terms what Iran would have to do to end sanctions—cease its programs on weapons of mass destruction and stop supporting terrorism, which presumably would include stopping support for the disruption of the Arab-Israeli peace process and for the destabilization of moderate Middle Eastern regimes.[49] The United States has not explained in detail what it expects Iran to do, much less what might be a transitional path involving phased measures by each side toward the final goal. One supplement to the existing sanctions policy would be to provide such a road map. Given the lack of dialogue between the United States and Iran—and the continuing refusal of Iran's leadership to permit its officials to meet with U.S. officials—it will be difficult to design such a map because neither side has a good understanding of what kind of transitional steps the other may be prepared to accept.[50]

Engaging Iran becomes more appropriate as that nation's strategic importance increases. However, it would appear that Iran's geostrategic position is less important now than in the 1970s. Iran is no longer an oil superpower. Its oil fields are old, and its reserves are expensive to develop; indeed, Iran produces today less oil than it did in 1970, while production has soared in other parts of the world. And Iran's economic weight has declined; its imports in 1996–97 were less than in 1977–78. Nor does Iran have the influence that Tehran claims with the world's Muslims: Besides being the only Shia state in a Muslim world dominated by Sunnis, the Islamic Republic of Iran is a failure whose experience does not inspire many others. On the other hand, Iran has gained an additional geostrategic importance with the breakup of the Soviet Union, since it offers a transport route to the Central Asian and Caucasian states, by which those countries could reduce their reliance on Russia and could develop more quickly their substantial oil and gas reserves.

The final factor affecting the evaluation of whether to engage or contain Iran are the prospects that engagement would encourage moderation. Washington is skeptical, based on its reading of the presidency of Rafsanjani from 1989 to 1997. When first in power, Rafsanjani and his team of technocrats liberalized Iran's economy, introducing market-based reforms and welcoming more foreign involvement. Europe engaged Iran to the tune of $30 billion in lending between 1989 and 1993.[51] During that same period, Iran sent assassination teams to Germany, France, Switzerland, Austria, Italy, the United Kingdom, Norway, and Japan.[52] For those who think that economic and cultural engagement will promote a more acceptable foreign policy, this is not an encouraging record.

Another alternative to sanctions would be offering carrots to Iran in return for strategic concessions by Tehran. U.S. sanctions supporters argue that this was U.S. policy in the mid-1980s. What they are referring to is "Iran-Contra." A mere five years after the humiliating embassy hostage affair of 1980–81, the United States sold Iran arms for use in its war with Iraq as a means of gaining the release of U.S. hostages in Lebanon. This policy was not a success, to put it mildly. Iran did not carry through on its end of the bargain. Indeed, instead of releasing Americans held hostage in Lebanon, Iran arranged for more Americans to be seized. The failure of the 1984–85 arms sales to Iran seriously weakened a popular president, Ronald Reagan. The Iran-Contra experience is a major factor in shaping the attitudes of sanctions supporters. By contrast, those opposed to U.S. sanctions on Iran regard the Iran-Contra affair as largely irrelevant in deciding whether to offer Iran carrots.

Sanctions supporters contrast the failure of conciliation in the Iran-Contra affair with the success of a tough policy for securing the release of the U.S. hostages in Lebanon. Only when Iran realized that the hostage holding was hurting its own interests did the hostages go free. The lesson that many in Washington learned was that with Iran, conciliation makes problems worse. According to this view, and unlike Cuba and North Korea, which have been prepared to cut deals with the United States that they then respected, Iran reads conciliation as weakness. The principal barrier to offering Iran inducements is that that nation's domestic politics makes deals with the United States unattractive.

Another alternative to sanctions is the use of military force. U.S. policy toward Iran could become like that of the Reagan administration toward Libya, where the United States used bombing raids against President Muammar Qaddafi. If, for instance, Iran is determined to have supported directly or indirectly the June 1996 bombing of the Khobar Towers in Dhahran, Saudi Arabia, in which 19 U.S. servicemen were killed, the United States could respond with military force to discourage further terrorism and to penalize Iran. But the use of military force against Iran would be unlikely to lead to a change in Iranian policy, unless the force were truly overwhelming or sustained—either of which would be out of proportion to the problem Iran poses, would be politically unsustainable in the region, and would lead to retaliation. Furthermore, the use of military force almost certainly would rally Iranian public opinion behind the now-unpopular Islamic Republic.

Lessons from Iran Sanctions

Economic sanctions are not likely to change a target country's behavior if it thinks the price is acceptably low. Iran has thought the price low because Tehran expects that, despite U.S. opposition, it can acquire from others needed finance and technology, including military technology. Also, Iran is not convinced that the United States has the will to persevere with a policy of denial until the Islamic Republic changes its behavior. And Iran has been willing to live with lower capital inflows and lower export earnings. The sanctions may well have reduced Iran's ability to carry out parts of its plans, such as conventional rearmament, but they have not changed its intentions or its capabilities significantly.

Combining carrots and sticks may not be politically possible at this juncture. Antipathy toward Iran, fed by suspicions that it may have been involved in terrorist attacks on Americans, makes politically unattractive any initiative for a more flexible U.S. policy toward that country. As a further complication, both Iranian and American sides are convinced that the other has been dishonest in past dealings, particularly by not living up to tacit agreements during the maneuverings for the release of U.S. hostages in Lebanon. Those in the United States leery of dealing with Iran are concerned that a new initiative could become a repeat of the Iran-Contra fiasco. Meanwhile, Iran may not be prepared to do much to improve relations with the United States. Domestic politics make it dangerous for any Iranian politician to propose talks with the U.S government, much less a strategic compromise. In the continuing maneuvering between conservatives and technocrats, any initiative for talks with the United States would be seized upon by the other side as a sign of abandonment of the Khomeini legacy.

The United States and Europe are far apart on how to deal with rogue regimes. Europe is wedded to the approach of encouraging Iranian moderates, while the United States is committed to containing Iran. In theory, the two approaches could be reconciled, with Europe offering the carrots and the United States proffering the stick. In practice, that would be a recipe for name-calling on each side, with the Europeans regarding the United States as a bully and U.S. politicians complaining about lack of support from Europeans who were selling out Western interests for commercial contract. Regular consultations at the highest levels between the United States and Europe have done little to resolve the differences. Designing and carrying out a policy of constructive engagement is more easily advocated than implemented.

Unilateral sanctions can cause friction with allies. To be sure, one could argue that the sanctions caused friction only because metal was already rubbing on metal: The United States and Europe were far apart on how to respond to Iran even before the United States applied sanctions against Iran. But the U.S. sanctions complicated discussions with European governments on how to approach Iran, and U.S. pressure to join in those sanctions made the discussions extremely difficult. In the aftermath of the Mykonos verdict, European governments became more aware of the problems Iran represents, but that did little to advance an agreement with the United States on how to approach Iran.

Notes

1. Wayne Mapp, *The Iran-United States Claims Tribunal: The First Ten Years* (Manchester: Manchester University Press, 1993), p. 6.
2. For the measures adopted through 1993, see Geoffrey Kemp, *Forever Enemies? American Policy and the Islamic Republic of Iran* (Washington, DC: Carnegie Endowment, 1994), pp. 103–10.
3. Elaine Sciolino, "U.S. and Iran Sign a Compensation Pact," *New York Times*, November 28, 1991, p. A3.

4. As described by Brent Scowcroft, Petro-Hunt Corporation "Iran in Transition" conference, May 2, 1996. Dallas, TX.
5. Vahe Petrossian, "Iran Back in the Firing Line," *Middle East Economic Digest*, December 4, 1992, p. 3.
6. Milton Buffington, "Iran-U.S. Trade Regulations," *Iran Business Monitor*, September 1993, p. 10. Interestingly in light of the later European objections about secondary boycotts, there appear to have been no objections to this act. Perhaps that was in part because the law was interpreted by the Bush and Clinton administrations in ways that restricted its reach—it was not applied to any goods with less than 20 percent U.S. content.
7. Martin Indyk, "Clinton Administration Policy Toward the Middle East," special report of The Washington Institute for Near East Policy, May 21, 1993, and Anthony Lake, "Confronting Backlash States," *Foreign Affairs* 73, no. 2 (March/April 1994), pp. 45–55.
8. Stephen Grummon, "Strengthening U.S. Containment Policy Toward Iran," *Policy Watch* (The Washington Institute for Near East Policy), March 16, 1995. Later that year Mr. Grummon joined the National Security Council staff as the official responsible for the Gulf.
9. Thomas Friedman, "Wednesday News Quiz," *New York Times*, March 29, 1995, p. A23.
10. For example, James Schlesinger, "Fragmentation and Hubris: A Shaky Basis for American Leadership," *The National Interest* (Fall 1997), p. 5.
11. ILSA provided that the minimum sanctioned investment was $40 million during the act's first year, after which time the minimum fell to $20 million except for investors whose government had taken steps to reduce the threats from Iran. Washington did not judge any government as having fulfilled this requirement.
12. Sec. 2(1) of Public Law 104–172 (50 USC 1701).
13. Cf. Zbigniew Brezinski, Brent Scowcroft, and Richard Murphy, "Differentiated Containment," *Foreign Affairs* 76, no. 3 (May/June 1997), pp. 20–30.
14. The U.S. government action, announced by Assistant Secretary of State Alan Larsen, was erroneously characterized in Dan Morgan and David Ottoway, "U.S. Won't Bar Pipeline Across Iran," *Washington Post*, July 27, 1997, pp. A1, A27. Contrary to that article, the decision was reached before Khatemi's election, it was openly announced (by Assistant Secretary of State Alan Larsen before the House International Relations Committee on July 23), and it did not involve a $1.6 billion pipeline across Iran (it concerned a pair of short connector pipelines linking up to Iran's gas lines on the east to Turkmenistan gas fields and on the west to the Turkish gas distribution network).
15. For example, Stephan-Götz Richter, "America's Iran Policy Rethinks Itself," *New York Times*, August 18, 1997, p. A21.

16. Executive Order 13059, issued August 19, 1997, which also brings together in one place all the existing restrictions on trade with Iran. The accompanying letter to the House Speaker and Senate President highlights the reexport issue.
17. On Russia, see John Hannah, "Evolving Russian Attitudes Towards Iran," in Patrick Clawson (ed.), *Iran's Strategic Intentions and Capabilities* (Washington, DC: National Defense University Press, 1994), pp. 55–60.
18. "Three Political Torpedoes Sink Conoco's Ship," *Iran Times*, March 24, 1995, p. 1.
19. Chris Hedges, "A Vast Smuggling Network Gets Advanced Arms to Iran," *New York Times*, March 15, 1995, p. A8.
20. Quoted in a Deutsche Presse-Agentur release cited in *Iran Times*, December 23, 1994, " Germany Warns its Firms About Iran," p. 15.
21. Chancellor Kohl, at his joint press conference with President Clinton in Washington, February 9, 1995.
22. For example, Peter Guilford, spokesman for the European Union's Trade Commissioner, stated, "We remain firmly opposed to the extraterritorial nature of both pieces of legislation [D'Amato and Helms-Burton]." See Youssef Ibrahim, "Planned U.S. Sanctions Anger Europeans," *New York Times*, July 25, 1996, p. A14.
23. Cf. "U.S. Government Policy with Respect to the Arab Secondary Boycott of Israel," prepared by Patton Boggs for the European Energy Coalition, September 4, 1996 (graciously provided by Bruno Cova of Agip).
24. "EU Settles on Sanctions with U.S. (maybe)," *Iran Times*, April 25, 1997, p. 14, which reviews the history of the actions.
25. As reported by various articles in *Financial Times*, September 29 and 30, 1997, including David Owen, "Total to Defy US with $2bn Deal to Develop Iran Gas," September 29, 1997, p. 1, and "Total Chief Defies US Threats," September 30, 1997, p. 9.
26. "Iran can't sell its oil," *Iran Times*, August 18, 1990, p. 15, and Donald Southerland, "2-Month-Old Trade Embargo Begins to Take Toll on Iran," *Washington Post*, August 9, 1995, p. F1.
27. International Monetary Fund, "Statistical Appendix—Islamic Republic of Iran," IMF Staff Country Report 96/108. (Washington, DC: IMF, October 1996). Unless otherwise noted, this report is the source used for all further economic data about Iran.
28. Michael Eisenstadt, *Iranian Military Power* (Washington, DC: The Washington Institute for Near East Policy), pp. 36–37.
29. International Monetary Fund, "Islamic Republic of Iran—Statistical Appendix," IMF Staff Country Report No. 96/108, p. 23, converted at the offshore market exchange rate given on pp. 54–55.
30. "New Sub Arrives in Bandar Abbas; Will Be Named Jonah," *Iran Times*, January 24, 1997, p. 14.

31. For instance, in opposing the sale in Iran of Coca-Cola bottled locally, Mohsen Rafiqdoost, supervisor of the powerful Janbazan and Mostazafan Foundation, argued, "We shall not permit the return of Western culture even in its weak form under the cover of economic prosperity" (*Resalaat*, December 14, 1993).
32. John Diamond, "Replacing Iran Regime Advocated by Gingrich," *Washington Post*, February 9, 1995, p. A24. Gingrich held up the intelligence community funding for fiscal year 1996 to insist on covert operations against Iran; in the end, $18 million was approved for a program to promote democracy in Iran. On retaliation over Khobar and Iranian concern about this, see Thomas Lippman and Bradley Graham, "U.S. Mulls Possible Response to Iran in Saudi Bombing," *Washington Post*, December 22, 1996, p. A30, and Robin Wright, "Iran Braces to Get Blamed for Bombing of U.S. Site," *Los Angeles Times*, December 25, 1996, p. A4.
33. International Monetary Fund, *Direction of Trade Statistics Yearbook 1987–1993* (Washington DC: IMF, 1988), p. 421.
34. Reexports to Iran from the United Arab Emirates in the first half of 1996 were $523 million, according to the UAE central bank, as reported in *Hamshahri* (Tehran), January 11, 1997. The proportion of those goods coming from the United States is from personal interviews with traders active in the Iran trade, Dubai, 1996 and 1997. The next sentence is based on personal interviews with European diplomats, 1997.
35. Article IV, section 2, of the treaty reads in its entirety, "All the Parties to the Treaty undertake to facilitate, and have the right to participate in, the fullest possible exchange of equipment, materials and scientific and technological information for the peaceful uses of nuclear energy. Parties to the Treaty in a position to do so shall also cooperate alone or together with other States or international organizations to the further development of the applications of nuclear energy for peaceful purposes, especially in the territories of non-nuclear-weapon States Party to the Treaty, with due consideration for the needs of the developing areas of the world."
36. Patrick Clawson, *Business as Usual? Western Policy Options Towards Iran* (New York: American Jewish Committee, 1995), pp. 43–48.
37. George Brock, "Britain Saves EU from Shameful Compromise on Rushdie," *London Times*, July 8, 1996.
38. Agence France Presse (AFP), March 19, 1997.
39. President Ali Akbar Rafsanjani described Rabin's assassination as "a clear case of the materialization of the divine revenge on the oppressors in history" (Radio Iran as transcribed in *Akhbaar Ruz*, November 5, 1995, p. 13.) The largest-circulation Iranian newspaper wrote, "The assassination of Yitzhak Rabin . . . sent a wave of joy and exhilaration among our country's people. In some districts, newspaper offices, and establishments, people passed around sweets and cakes." ("People Rejoice over Killing of Israeli Terrorist Premier," *Keyhan*, as translated in *Akhbaar Ruz*, November 5, 1995, p. 14.)

40. The Islamic Republic News Agency dispatch continued, "The Islamic revolutionaries should pay no heed to the outcry of the hypocritical West . . . Muslims are obliged to obey only God's command in the holy Koran to wage jihad against the occupiers of Muslim lands until final victory and liberation." ["Iran: IRNA Sees Israeli Bombings as 'Divine Retribution,'" Foreign Broadcast Information Service (FBIS)–Near East and South Asia, March 5, 1996, p. 87, citing IRNA, March 4, 1996.]
41. Michael Lindemann. "German Warrant for Iran Minister," *Financial Times*, March 16, 1996, p. 2.
42. Michael Melke, "The Men Pulling the Strings Were in Tehran," *Die Welt* as printed in FBIS, November 13, 1996, and "Iran Adopts Harsher Tone Toward Germany," *Die Welt* as printed in FBIS, November 16, 1996.
43. "The Mykonos Trial: Excerpts from the Opinion of the Berlin Court." *Frankfurter Runschau*, April 12, 1997, as printed in FBIS, April 21, 1997, p. 9.
44. Lionel Barber, "Brussels Fires Shot Across Iran's Bows," *Financial Times*, April 30, 1997, p. 8; and Ian Black, "Response to Iran Divides Europe," *Washington Times*, April 28, 1997, pp. A1, A10.
45. Tehran Radio, "President on Critical Dialogue" April 30, 1997, which is also the source for the Rafsanjani quote in two sentences. The Foreign Minister Ali Velayati quote in the following sentence is from "It is not important for Iran whether European Ambassadors come to Tehran or not," *Keyhan* of the same date. All these are as translated in *Akhbaar Ruz*, April 30, 1997, pp. 11, 12.
46. Both editorials appeared April 30, 1997.
47. Dieter Rulff, "Looking Like Damned Fools," *Die Tageszeitung*, May 2, 1997, as translated in FBIS of the same date.
48. "EU Official: Iran Dialogue Dead in Water, Beyond Repair" *Iran Times*, May 16, 1997, p. 3.
49. Sec. 8(a) Public Law 104-172 (50 USC 1701).
50. For one example of such an approach, see Robin Wright and Shaul Bakhash, "The U.S. and Iran: An Offer They Can't Refuse?" *Foreign Policy*, no. 108 (Fall 1997), pp. 124–37.
51. Estimating the borrowing during 1989 to 1992 is complicated by systematic misreporting of Iran's debt. Iran's debt at end-1992 was at least $40 billion. That was at least $30 billion higher than its debt at end-1988, which was no more than $10 billion. In fact, debt at end-1992 may have been higher and debt at end-1988 may have been lower, in which case the increase in debt between 1988 and 1992 would have been more than $30 billion.
52. For details, see Clawson, *Business as Usual?* pp. 19–23.

5

Iraq

ERIC D. K. MELBY

IRAQ IS AMONG the most dramatic cases involving economic sanctions in the twentieth century. The case divides into two distinct phases: the period from August 1990 to March 1991—that is, before the Desert Storm cease-fire—and April 1991 to the present. Iraq is the first case since the collapse of the Soviet empire in 1989 of a multilateral effort to discipline a country that sought to redress its regional grievances by overt military means. It is also the first attempt by the United States to provide crisis leadership in a global environment not defined principally by the struggle against communism. As a result, the Iraq sanctions case is likely to be examined for possible lessons for the application of economic sanctions elsewhere. How the United States handled this crisis *could* have created a precedent for other crises. However, as important as Iraq is for the lessons it provides, the Iraq case is close to unique. It is likely to be replicated only in the most extreme of circumstances.

Prior to Iraq's Invasion of Kuwait

It is useful to outline briefly the situation prior to Iraq's invasion of Kuwait. When President George Bush took office in 1989, the Persian Gulf, while a strategically important region for U.S. interests, did not command as much attention as the evolving situation in the Soviet Union and Eastern Europe. However, the region was the focus of a national security review (NSR-10) and a presidential decision (NSD-26) that broadly supported the Reagan administration's policy toward Iraq.[1] The objective was to try to encourage minimally acceptable